

Tax Expenditures

Tax Expenditures

The District of Columbia Code requires the Chief Financial Officer to prepare a Tax Expenditure Budget for Fiscal Year 2003 and biennially afterwards. This study contains the Fiscal Year 2005 Tax Expenditure Budget.

Background

Tax expenditures are revenue losses that arise from provisions of the District's tax laws intended to achieve public objectives by reducing the tax liabilities of particular groups of taxpayers, or even individual taxpayers. They are called expenditures because their public purposes also could possibly be achieved by D.C. Government outlays. Tax expenditures take the following forms:

- exclusions of particular kinds of income, property, sales, etc., from taxation;
- exemptions of particular classes of individuals or entities from taxation;
- deductions from income or property valuation;
- deferrals of taxation; and
- credits against tax liabilities.

Determining whether any particular exclusion, deduction, or credit constitutes a tax expenditure is a matter of judgment. There are several possible considerations such as:

- whether the particular provision is a departure from a "normal" tax structure;
- whether the provision reduces taxes for particular types of persons or entities; and
- whether there is a plausible public purpose for the provision.

In this tax expenditure budget, we rely on all of these considerations. Characterizing a provision as a tax expenditure does not indicate the desirability of the provision. That is a matter for the policy makers.

Findings

The provisions of D.C. tax law identified as tax expenditures for this budget are shown in the table. They are grouped into major categories according to the broad policy objectives of the tax expenditures, and then grouped by the type of tax (income, real property, sales, etc.). Many of the income/franchise tax expenditures arise from federal income tax exclusions, deductions, etc. that are incorporated into D.C. law by general references to Federal law; these are identified by the square "bullet" between the item number and the description. The remaining tax expenditures are explicitly provided for in the D.C. Code.

The table identifies 157 separate tax expenditure items. For some items, separate estimates of the revenue losses could not be made. About half the listed tax expenditure items are reductions in D.C. income/franchise tax revenue that result from federal preferences that "flow through" to D.C. tax returns.

Approximately 80 percent of the sum of all D.C. tax expenditures estimated arises from items that derive from explicit provisions of D.C. law.

Uses of the Estimates

Tax expenditures potentially support many kinds of analysis. For example, by comparing budget expenditures and tax expenditures we get a more complete picture of public resources devoted to achieving policy goals. The text accompanying the estimates in the 2003 budget volume illustrated such analysis in the areas of housing and education. For some tax expenditures, the policy objective is not apparent. In such cases, we have simply included the expenditures in an "other objectives" category. The discussion in the 2003 volume suggested that the purposes of some tax expenditure items do not fall into ordinary expenditure categories such as housing and education. Such alternative purposes would include, for example: tax simplification, reciprocity between the District and the States, and population policy (making the District an attractive domicile for mobile citizens who could reduce their tax obligations by moving elsewhere).

A special case of tax preferences with obscure objectives is quite prominent in this tax expenditure budget: tax exemptions for the Federal Government and for embassies, chanceries, and the like, of foreign governments. For these tax preferences, it is clearly fruitless to consider possible motivations of the Government of the District of Columbia, since the preferences arise not from actions of that government but from the United States Constitution and federal law elaborated in decisions of the federal courts. It could be argued that, since these preferences do not result from deliberate choice of the District, they should not be considered tax expenditures. This tax expenditure budget nevertheless includes them to facilitate comparison of the magnitudes of these preferences and of other tax expenditures.

Table 5-1

Preliminary District of Columbia Tax Expenditure Estimates for Fiscal Years 2004-2007 by Objective Category and Type of Tax

		Estimates in thousands of dollars (rounded to nearest ten thousand)			
Tax Expenditure		2004	2005	2006	2007
Housing					
<u>Income/Franchise Tax</u>					
exclusion of interest on state and local "private activity" bonds issued to support:					
1 ■	rental housing	340	390	410	420
2 ■	owner-occupied housing mortgage subsidy	1,090	1,200	1,280	1,340
3 ■	veterans' housing	70	70	70	90
4 ■	exclusion of capital gains income on sale of principal residence	14,660	15,100	15,560	16,020
5 ■	accelerated depreciation on rental housing	600	-150	-1,040	-2,200
6 ■	deferral of income from post 1987 installment sales	780	790	800	820
7 ■	itemized deduction for mortgage interest on owner-occupied dwellings	31,930	35,580	38,160	40,010
8 ■	itemized deduction for state and local property tax on owner-occupied dwellings	11,090	9,900	8,220	7,440
9	D.C. credit for rehabilitation of a dwelling in a Historic Preservation District	1,250	1,250	1,250	1,250
10	D.C. credit for certain low income homeowner for increase in real property tax	1,400	1,400	1,400	1,400
11	D.C. credits and deductions for employer-assisted home purchases	2,240	2,240	2,240	2,240
<u>Real Property Tax</u>					
12	homestead exemption	31,880	31,880	31,880	31,880
13	abatement and credits for rehabilitation of single family residential property located in an enterprise zone	1,110	1,110	1,110	1,110
14	50 percent abatement for properties whose owner engaged in a Housing Assistance Payment Contract	1,000	1,000	1,000	1,000
15	property tax abatements for new residential developments	1,000	1,000	1,000	1,000
Education					
<u>Income/Franchise Tax</u>					
exclusion of interest on state and local "private activity" bonds issued to support:					
16 ■	student-loans	310	340	360	380
17 ■	private nonprofit educational facilities	810	900	960	1,000
exclusion of:					
18 ■	interest on savings bonds redeemed to finance educational expenses	20	20	20	40
19 ■	scholarship and fellowship income	1,060	1,120	1,170	1,180
20 ■	employer-provided educational assistance	440	470	490	520
deferral for contributions to:					
21 ■	state prepaid tuition plans	270	570	770	910
22 ■	education Individual Retirement Accounts	200	250	340	430
23 ■	deduction for student-loan interest	1,420	1,450	1,490	1,530
24 ■	parental personal exemption for students age 19 or over	2,030	1,650	1,300	1,140
25 ■	itemized deduction for charitable contributions to educational entities	4,310	4,660	5,110	5,400
26	D.C. 529 college saving program	550	620	620	620

Table 5-1, continued

		Estimates in thousands of dollars (rounded to nearest ten thousand)			
Tax Expenditure		2004	2005	2006	2007
<u>Real Property Tax</u>					
27	exemptions for property of educational institutions	39,820	42,410	45,170	48,100
<u>Deed Recordation and Transfer Taxes</u>					
28	for property purchased by educational institutions	490	490	490	490
Health and Healthcare					
<u>Income/Franchise Tax</u>					
29	■ exclusion of interest on state and local "private activity" bonds issued to support hospital construction	3,420	3,710	4,080	4,320
30	■ exclusion of employer contributions for medical insurance premiums and medical care	118,750	125,720	134,570	144,450
31	■ deduction for medical insurance premiums of self-employed	2,510	2,540	2,750	2,930
32	■ deduction for contributions to medical Savings Accounts	7,660	8,790	9,440	10,210
33	■ itemized deduction for charitable contributions to health related entities	110	120	120	130
34	■ itemized deduction for medical expenses	3,160	3,470	3,710	3,910
<u>Insurance Premium Tax</u>					
35	exemption for health insurance companies that provide subsidized open enrollment coverage	4,570	5,840	7,480	9,580
<u>Real Property Tax</u>					
36	exemption for hospitals	11,830	12,520	13,240	14,010
Economic Development					
<u>Income/Franchise Tax</u>					
exclusion of interest on state and local "private activity" bonds issued to support:					
37	■ energy facilities	110	120	120	130
38	■ airport, dock, and similar facilities	800	870	940	990
39	■ small manufacturing facilities	300	330	340	360
40	■ expensing of certain small investments	1,240	1,210	1,320	1,530
41	■ accelerated depreciation of buildings other than rental housing	-2,460	-3,130	-3,630	-5,290
42	■ accelerated depreciation of machinery and equipment	29,090	29,570	30,380	32,260
43	■ amortization of start-up costs	90	100	120	120
44	■ deduction of loss from sale of small business corporation stock	50	50	50	50
45	■ exception from passive loss rules for \$25,000 of rental real estate loss	4,380	4,210	4,040	3,860
46	■ excess bad debt reserves of financial institutions	20	20	20	10
47	■ incentives for businesses in empowerment zones, enterprise communities, and renewal communities	980	1,010	1,100	1,200
48	D.C.economic development zone credits	220	230	240	240
<u>Real Property Tax</u>					
49	exemption for properties owned by D,C, Redevelopment Authority	7,840	7,850	7,860	7,880
50	deferral of tax for the Bureau of National Affairs	1,220	1,340	1,470	1,620
51	exemption for properties of the Washington Metropolitan Transportation authority	9,140	9,270	9,410	9,540

Table 5-1, continued

		Estimates in thousands of dollars (rounded to nearest ten thousand)			
Tax Expenditure		2004	2005	2006	2007
<u>Sales Tax (included in Sales Tax under other purposes)</u>					
52	exclusion of energy products used in manufacturing				
53	exclusion of materials used in war memorials				
54	exclusion of materials used in supermarkets				
55	<u>Various Taxes</u>				
56	incentives for qualified high technology companies	2,300	1,600	900	900
57	construction period deferrals for Mandarin Hotel development	1,000	0	0	0
58	construction period exemptions for Gallery Place development	3,000	0	0	0
Income Security and Social Services					
<u>Income/Franchise Tax</u>					
exclusion of:					
59	■ interest on life insurance savings	14,160	15,280	16,580	17,990
60	■ certain foster care payments	360	370	380	390
61	■ workers' compensation benefits	7,190	7,620	8,090	8,580
62	■ special benefits for disabled coal miners	50	40	40	40
63	■ public assistance benefits	340	360	380	390
64	■ railroad retirement system benefits	710	710	710	710
65	■ Social Security benefits for retired workers	34,760	33,740	34,320	36,130
66	■ Social Security benefits for disabled	6,330	6,590	6,800	7,230
67	■ Social Security benefits for dependents and survivors	7,760	7,640	7,370	7,420
68	■ veterans pensions	80	80	90	90
69	■ GI Bill education benefits	100	110	110	130
70	■ assistance for adopted foster children	240	280	320	360
71	■ military disability pensions	190	190	190	190
72	■ income of trusts to finance supplementary unemployment benefits	30	30	30	30
73	■ veterans death benefits and disability compensation	2,730	2,950	3,220	3,420
74	■ employer contributions for premiums on group term life insurance	1,380	1,400	1,420	1,450
75	■ employer contributions for premiums on accident and disability insurance	270	280	290	300
76	■ workers' compensation insurance premiums	-160	-630	-1,070	-1,540
77	■ employer provided child care	690	860	970	1,020
78	■ employer sponsored adoption assistance	380	420	450	470
79	■ employer contributions to Employer pension plans	66,070	68,700	73,820	69,710
80	■ contributions to Keogh plans	5,490	5,830	6,210	6,630
81	■ employee contributions to Individual Retirement Accounts	10,650	10,800	11,080	10,830
82	■ itemized deduction for casualty losses	820	800	810	760
83	D.C. exclusion of up to \$3000 of federal and D.C. pension income	8,710	8,710	8,710	8,710
84	D.C. child and dependent care credit (32 percent of federal credit)	2,260	2,060	1,690	1,550
85	D.C. earned income credit (25 percent of federal credit) *	21,460	21,860	22,310	22,250
87	D.C. exclusion of Social Security income included on Federal return	8,800	9,050	9,310	9,580
88	D.C. additional exemption for blind	20	20	20	20
89	D.C. additional exemption for elderly	2,500	2,500	2,500	2,500
90	D.C. low-income credit	2,400	2,400	2,400	2,400
91	D.C. credit for property tax *	2,500	2,500	2,500	2,500

Table 5-1, continued

		Estimates in thousands of dollars (rounded to nearest ten thousand)			
	Tax Expenditure	2004	2005	2006	2007
	<u>Real Property Tax</u>				
92	low income exemption	9,670	9,670	9,670	9,670
93	senior citizen exemption	24,590	27,290	30,160	32,780
94	12 percent limit on annual real property tax increase	85,000	85,000	80,000	75,000
95	exemption for properties of charitable organizations	10,980	11,490	12,020	12,580
	<u>Sales Tax (estimates included under other objectives)</u>				
96	groceries				
97	medicines, drugs, medical devices				
98	sales by 501(c)(4) organizations				
99	sale of food at cost by non-profit organizations				
100	sale of food and beverages by senior centers to residents				
101	sale of food purchased with food stamps				
	<u>Deed Recordation and Transfer Taxes</u>				
102	exemption of property purchased by a qualifying lower income household	2,000	2,000	2,000	2,000
103	exemption of property purchased by charitable entities	190	190	190	190
Cultural Enrichment					
	<u>Income/Franchise Tax</u>				
104	■ exclusion of parsonage allowances	310	330	350	370
105	■ deduction for charitable contributions, other than education and health	36,560	39,660	43,540	46,160
	<u>Real Property Tax</u>				
106	exemption for libraries	260	280	300	320
107	exemption for churches, synagogues, and mosques	31,820	32,800	33,820	34,870
108	exemption for cemeteries	3,380	3,490	3,590	3,710
	<u>Deed Recordation and Transfer Taxes</u>				
109	exemption for property purchased by churches synagogues, and mosques	100	100	100	100
Public Safety					
	<u>Income/Franchise Tax</u>				
110	D.C. police officer first-time homebuyer income tax credit	220	220	220	220
	<u>Real Property Tax</u>				
111	D.C. five-year police officer first-time homebuyer credit	10	10	10	10
Environmental Protection					
	<u>Income/Franchise Tax</u>				
112	■ exclusion of interest on state and local "private activity" bonds issued to support water, sewage, and hazardous waste facilities	540	590	630	630
113	■ exclusion of conservation subsidies provided by public utilities	70	70	70	70
114	■ expensing of environmental remediation costs	20	-10	-10	-10
115	■ deduction for part of cost of clean-fuel burning vehicles	20	0	-10	-20
	<u>Real Property Tax</u>				
116	condominium trash credit	1,790	1,830	1,870	1,920
Other Objectives					
	<u>Income/Franchise Tax</u>				
	exclusion of:				
117	■ interest on public purpose State and local bonds	8,170	8,260	8,210	8,020
118	■ benefits, allowances, and certain pay to armed forces personnel	2,490	2,510	2,550	2,570
119	■ income earned abroad by U.S. citizens	2,380	2,440	2,500	2,610
120	■ certain allowances for Federal employees abroad	31,000	32,550	34,100	35,650
122	■ step-up basis of capital gains at death	22,550	25,270	28,040	30,810
123	■ employer paid meals and lodging (other than military)	900	950	990	1,030

Table 5-1, continued

		Estimates in thousands of dollars (rounded to nearest ten thousand)			
Tax Expenditure		2004	2005	2006	2007
124	■ extraterritorial income	4,150	4,440	4,740	5,070
125	■ cancellation of indebtedness	30	30	30	40
127	■ reimbursed employee parking expenses	2,490	2,630	2,770	2,900
128	■ employer-provided transit passes	420	500	580	660
129	■ inventory property sales source rules exception	1,220	1,280	1,350	1,420
130	■ credit union income	1,030	1,080	1,130	1,180
	expensing of:				
131	■ research and experimentation expenditures	-1,780	3,410	6,280	5,390
132	■ exploration and development costs, fuels	200	120	60	50
133	■ multiperiod timber growing costs	180	190	190	200
134	■ exploration and development costs, nonfuel minerals	10	10	10	10
136	■ certain agricultural capital outlays	10	10	10	10
	deferral of tax on				
137	■ interest on U.S. savings bonds	30	30	30	30
138	■ income from controlled foreign corporations	5,960	6,330	6,730	7,200
139	■ capital construction funds of shipping companies	20	20	20	20
140	■ gain on sale of farm refiners	0	0	0	0
141	■ percentage depletion, fuels	440	410	420	430
142	■ depletion, nonfuel minerals	180	190	190	200
143	■ itemized deduction for state and local taxes paid, other than real estate and income taxes	1,300	1,210	1,030	940
144	■ exception from passive loss rules for working interest in oil and gas wells	10	10	10	10
145	D.C. exclusion of interest on U.S obligations or securities	4,000	4,000	4,000	4,000
	<u>Real Property Tax</u>				
146	exemption for embassies, chanceries, and associated properties of foreign governments	34,580	36,880	39,340	41,960
147	properties exempt by act of Congress; or multi-purpose exemptions	67,400	76,230	86,220	97,510
148	exemption for property of the Federal Government	494,340	501,520	508,820	516,210
	<u>Sales Tax</u>				
	exemption of sales:	839,330	871,230	905,870	905,870
149	to the Federal Government				
150	to state and local governments				
151	to semi-public institutions				
152	to public utility companies				
153	other exemptions				
154	exemption of sales of professional and personal services	220,620	229,790	239,950	239,950
	<u>Deed Recordation and Transfer Taxes</u>				
	exemption of transfers:				
155	of properties purchased by foreign governments for embassies and related uses	160	160	160	120
156	of properties purchased by entities established by acts of Congress	290	290	290	210
157	of properties purchased by miscellaneous exempt entities	60	60	60	40

■ Items that "flow through" to the D.C. income tax rules from federal income tax rules.

* Figures include estimated outlays for refundable part of the credit.